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Subject: New Commerce (Census Bureau) Estimate of Ruble Value of Soviet Foreign Trade

1. The Census Bureau has just released a specialized study of the domestic value of Soviet foreign trade for use in their reconstruction of the Soviet input output table for 1972. The study is carefully researched and is clearly the most authoritative one on the subject. Some of the inferences drawn from the study's results, however, in press briefings and articles are misleading.

2. Briefly, the study estimates the value of Soviet imports and exports in domestic rubles at 18.6 percent and 6.8 percent respectively of National Income (Soviet definition) in 1978, the last year covered. In comparisons with Gross National Product (which is larger than national income, Soviet concept, in that it includes services and depreciation allowances), the import share becomes 12.6 percent and the export share 4.7 percent.

3. These figures in domestic rubles give a very different picture for imports than the figures that are most commonly used, based on comparisons of the dollar value of Soviet imports and exports with estimates of the dollar value of Soviet GNP. In terms of dollars for 1978, the import share was 4.8 percent, and the export share, 4.1 percent. In other words, imports are 2-1/2 times larger relative to GNP in terms of domestic rubles than in terms of dollars.

4. The reasons for these large differences are complex. They appear to include the following factors:

- o Imports of consumer goods are taxed extremely heavily, and consequently are sold on the retail market at very high and rising prices, which the Soviet people are willing to pay because they are starved for quality, variety and style.

- o Premium prices are charged for imports of machinery and other producer goods, partly because of quality differences.

5. The inference drawn by Commerce officials that these calculations demonstrate a greater Soviet dependence on foreign trade than was formerly believed is partly correct. A large part of Soviet imports are goods which, because of their higher quality and technology, can be produced in the USSR only at relatively high cost. The high prices of imported consumer goods, however, also reflect market shortages rather than just high production costs.

6. In its coverage of the Census Bureau releases, the press has treated total Soviet foreign trade as if it represented trade with the West alone. In 1978, hard currency imports were about one-third of the total dollar value of Soviet imports and hard currency exports were a quarter of

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total exports. The Commerce study does not calculate the domestic ruble value of hard currency imports or exports. A reasonable guess for the share of such imports in GNP in domestic rubles is 5 percent.

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